



Memorandum

California Public Employees' Retirement System

Date: November 17, 2005

From: Dennis A. Johnson, CFA
Senior Portfolio Manager, Corporate Governance

Subject: November 17, 2005 Meeting with Royal Dutch Shell (RD) – Sudan Activities
(The following summarizes remarks made by representatives of RD.)

Royal Dutch Attendees: Jeroen van der Veer, Chief Executive Royal Dutch Shell
Honore Dainhl, Senior Regional Advisor Sub-Saharan Africa
David T. Lawrence, Executive Vice President Investor Relations

Attendees – CalPERS:

Dennis Johnson, Senior Portfolio Manager, Corporate Governance

Introduction

The meeting began with a brief overview of why the Sudan initiative is important. Reference was made to the fact that CalPERS is acting both as a member of a coalition of large U.S. institutional investors and on direction from its Investment Committee. It was also stated that the CalPERS Board will receive an update report on Sudan at the December Board meeting.

Sudan-Strategy Review

Mr. Honore Dainhl discussed Royal Dutch's (RD) strategic position and initiatives in Sudan. Sudan is statistically insignificant in the RD business portfolio. There are 130 employees in Sudan compared to approximately 12,000 in total in Africa. RD's primary business activity in Sudan is the operation of fuel service stations. Oil distributed through their service stations is imported through Port Sudan. There are 42 service stations in Sudan versus 3000 throughout Africa. RD's Sudan business does not produce a profit. There are no growth initiatives in place or being considered for Sudan at this time. If conditions were to materially improve, RD could become interested in investing in Sudan.

Royal Dutch has been selling its assets in Sudan. The refinery business was sold in 1992. The chemicals business was sold shortly thereafter. RD's Liquefied Natural Gas (LNG) business was sold in 1994. The aviation fuel business was recently sold to Petronas.

The question was raised to RD about the prospects of Sudan having the potential to produce oil at levels comparable to Nigeria over the next 5-10 years. RD indicated that their external sources on the subject are not providing information or data that would support that outlook.

Mr. van der Veer indicated that they do not own equity in Chinese energy companies doing business in Sudan. He also indicated that in the course of business, their country manager meets with Sudan's Minister of Energy. These meetings represent an opportunity to communicate RD's position on the importance of having and abiding by the right business principles. RD will only operate in those countries where it can function under its publicly stated business principles and guidelines.

The question was raised about selling the remaining assets in Sudan. RD indicated that they have not considered this. In addition, they pointed out that there are fifteen countries in Africa with an asset base smaller than Sudan. Leaving Sudan could lead to the suggestion of RD getting out of most of Africa.

Humanitarian Activity

Mr. van der Veer stated the importance of understanding how tough life is for people living in Sudan. He suggested that it could be devastating to the people of Sudan if RD were to leave. However, he does recognize the importance of balancing the interest of RD constituencies which obviously include shareowners.

Their decision to sell the aviation fuel business was an example of their sensitivity to humanitarian efforts. When RD realized their only customer for aviation fuel had become the Sudan military, the business was sold to Petronas.

A UK Commission visited Sudan and RD was noted as an example of an entity with good human rights policies and practices. RD provided human rights training to a group meeting in London from Sudan. RD is not directly or indirectly engaging the political leadership in Sudan to address conditions there.

Closing

Mr. Honore Dainhl indicated that he is from Africa and stated the problem with companies not understanding that they do not improve conditions by leaving a country. He indicated that there are many examples of life not being the same when companies withdraw from a country. If there is a new owner of the assets, they are inferior in every way from the point of view of the local people. If the assets are withdrawn or abandoned, local people suffer even more. Mr. Dainhl stressed the importance of Westerners distinguishing the difference between the political leadership and the people of Sudan when considering strategies to effect change. In his opinion, the worst is behind the people of Sudan. He notes the Peace Agreement, the Government reconciliation and the formation of the National Commission whereby the President of North Sudan and leader of South Sudan serve as President and Vice President, respectively. Mr. Dainhl also stated that he does not have any visibility into conditions getting better in Sudan.

Mr. van der Veer stated that he concurred with Mr. Dainhl. Divestment is a western way of addressing problems with which he philosophically disagrees. He thinks about the personal implications of divestment. Mr. van der Veer also stated that there are no assurances that business principles and human rights will improve in Sudan if RD completely leaves the country.

He closed by stating that RD will continue to emphasize the need for the existence of good business principles in Sudan. He wants RD to promote the principles of sustainable development in Sudan. The existence and reinforcement of assurance procedures will continue to govern how RD personnel conduct business in Sudan.